VSTECS (VST MK)

Stronger 3Q25 Ahead On Accelerating Growth Momentum

	BUY (Maintained)
Share Price	RM3.93
Target Price	RM5.10
Upside	+29.8%

Highlights

- Expect a sequentially stronger 3Q25, driven mainly by AI-related data centre equipment demand and public sector project deliveries.
- Growth momentum is expected to accelerate further in 4Q25 and into 2026 as the Malaysia colocation data centres enter the fit-out phase, which will benefit VSTECS.
- Meanwhile, the group is exploring new AI-related business opportunities, which could further supercharge its growth. Maintain BUY; target price: RM5.10 (from RM4.38).

Analysis

- **Expect a sequential stronger 3Q25.** VSTECS will be tentatively releasing its 3Q25 results on 12 Nov 25. We expect 3Q25 earnings to come in in the range of RM21.4m-23.6m (+6% to +17% qoq; +10% to +21% yoy). Such decent results will be anchored by: a) stronger momentum from ICT distribution mainly buoyed by iPhone17, Pixel smartphones and AI PC; b) increased adoption of cloud services; c) more shipments of AI-related DC equipment & infrastructure in 3Q25 and increased contribution from the ICT services segment alongside this; and d) acceleration of public sector projects in 2H25 after a quiet 2024. That said, while we expect a sequential stronger 3Q25, we foresee an even stronger 4Q25 as 4Q is seasonally strongest quarter of the year with highest consumer and enterprise spending.
- **Malaysia's colocation DC build-out gains pace, entering fit-out phase.** Malaysia's colocation DC momentum remains strong, with several facilities approaching completion in 2H25 and beyond. Although granular data on colocation builds are limited, key upcoming completions include Telekom Malaysia's (TM) twin-core data centres in Cyberjaya and Iskandar Puteri, which will add about 20 MW under Phase 2, targeted for commercial operation by 3Q-4Q25, according to Malaysian Investment Development Authority. Beyond 2025, TM-Nxera's Johor campus is progressing toward mid-26 completion, with Phase 1 providing roughly 64 MW of capacity. As these facilities move from construction to commissioning, operators are expected to begin large-scale procurement of IT infrastructure such as networking equipment, servers, and storage systems to outfit their halls. Based on our channel checks, the estimated cost of IT equipment per megawatt (MW) is RM40m-50m, positioning VSTECS to benefit from the post-construction fit-out demand as new colocation data centres come online.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	2727.2	2901.7	3413.8	3987.9	4637.9
EBITDA	82.7	91.0	104.9	127.9	142.6
Operating profit	79.6	87.6	107.2	133.2	150.2
Net profit (rep./act.)	67.4	70.6	86.2	106.8	120.6
Net profit (adj.)	62.0	70.3	86.2	106.8	120.6
EPS	17.4	19.7	24.2	29.9	33.8
PE	22.6	19.9	16.3	13.1	11.6
P/B	3.1	2.8	2.5	2.2	2.0
EV/EBITDA	15.5	14.2	12.1	9.9	8.7
Dividend yield	1.7	1.7	2.5	2.7	3.0
Net margin	2.3	2.4	2.5	2.7	2.6
Net debt/(cash) to equity	(25.7)	(21.1)	(24.7)	(22.8)	(23.4)
Interest cover	62.7	226.4	277.0	344.2	388.0
ROE	14.8	14.0	15.6	17.1	17.2

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Stock Data

GICS sector	ICT Distributor
Bloomberg ticker:	VST MK
Shares issued (m):	356.6
Market cap (RMm):	1,401.3
Market cap (US$m):	334.4
3-mth avg daily t'over (US$m):	0.4

Price Performance (%)

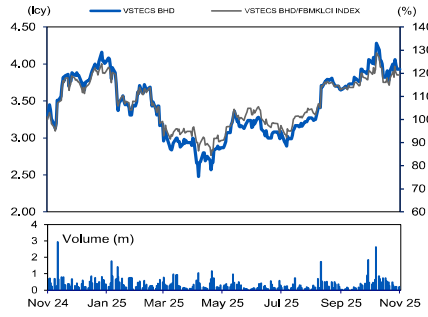
52-week high/low RM4.40/RM2.46

1mth	3mth	6mth	1yr	YTD
1.6	20.9	37.9	19.8	(2.7)

Major Shareholders

	%
VSTECS Holding Ltd	45.6
Sengin Sdn Bhd	12.2
Dasar Technologies Sdn Bhd	8.6

Price Chart



Source: Bloomberg

Company Description

VSTECS is the leading distributor of ICT products to consumers and enterprises in Malaysia. Founded in 1985, the group distributes a wide range of ICT products to both consumer and enterprise and provides IT services in the form of pre-sales, integration, and post-sales in support of the brands represented..

- **Three pathways to capture AI growth.** VSTECS is exploring three complementary layers of AI infrastructure opportunities that align with Malaysia's accelerating digital and data-centre landscape. First, through partnerships with public cloud providers such as AWS, Azure, and Alibaba Cloud (which already started), VSTECS is exploring opportunities to resell more GPU-optimised instances and AI platform subscriptions, capturing recurring revenue from enterprises adopting cloud-based AI workloads (without data sovereignty). Second, under the on-premise AI infrastructure model, the group provides complete AI hardware and platform solutions, including GPU servers, networking systems, and AI software stacks to customers operating their own data centres. Finally, in the local cloud-based GPU and AI-platform segment (AIaaS), VSTECS is positioned to support the development of sovereign AI ecosystems by delivering integrated GPU infrastructure and customised local AI platforms to service providers (normally local telcos), and subsequently reselling their AI services and applications to local enterprise end-users. We expect VSTECS to materialise one of these potentials and contribute positively in 2026.
- **Resilient ICT distribution and services pipeline.** VSTECS's ICT distribution and services pipeline remains solid, supported by multiple structural growth drivers. On the distribution front, demand is still rolling in from the replacement cycle of devices sold during the pandemic era; furthermore, shipment for AI PCs is expected to continue gaining traction and capturing market share from traditional PCs, while the upcoming Starlink Mini rollout should further catalyse ICT hardware sales. Volume is anticipated to stay elevated through 2H25 and into 1H26, driven by the launch of more AI-enabled devices, as consumers await enhanced AI features in next-generation laptops. According to Gartner, AI laptops are projected to account for 51% of total laptop shipments in 2025. Meanwhile, on the ICT services front, demand is expected to grow in tandem with the rising momentum in the enterprise systems segment, as described above. Cloud services are also poised to contribute more meaningfully in 2H25, as enterprises accelerate migration to cloud infrastructure to enhance scalability and operational resilience. VSTECS expects recurring revenue from maintenance and cloud subscriptions, which currently represent about 20% of ICT services, to potentially rise to 50% within two years as cloud adoption deepens.

Valuation/Recommendation

- **Maintain BUY with a higher target price of RM5.10 (from RM4.38),** still based on 0.85x PEG ratio, which is derived from 17.0x 2026F PE (from 15x). We believe the group has entered a strong growth phase of high earnings delivery by capturing the total addressable market of Malaysia's colocation data centre segment, hence a higher PE multiple is ascribed. Given the lack of local listed peers for valuation benchmarking, we use a 0.85x PEG ratio, reflecting a three-year net profit CAGR of 20% from 2024.

Earnings Revision/Risk

- Upgrade 2026/27 earnings by 5% to reflect higher shipments of AI-related DC equipment & infrastructure.

Environmental, Social, Governance (ESG) Updates

- **Environmental**
  - Electricity withdrawal from main grid reduced by 20% yoy in 2023.
  - Solar power constituted 41% of total electricity consumed in 2023.
  - An around 26% reduction in paper consumption.
- **Social**
  - Maintaining a 50% male-female composition among total employees.
  - The group recorded zero work fatalities over the past nine years.
  - 100% local employees.
- **Governance**
  - Zero confirmed corruption or harassment cases reported.
  - Zero fines or penalties from regulatory authorities.

Key Principal Relationships

Source: VSTECS

VSTECS New AI Opportunity

LEVERAGING AI FOR GROWTH
VSTECS
HARDWARE
CPU SERVERS
AI GPU
HIGH-SPEED STORAGE
400G NETWORK
PLATFORM / APP
AI STACK
PLATFORM PROVISION
USAGE & BILLING
AI TOOLS & STD APPS
CUSTOMISED AI APPS
Public cloud AI infra and platform (Alibaba, AWS, Azure)
GPU & AI Tools subscriptions without data sovereignty
Revenue opportunities:
Reselling cloud GPU usage & AI tools
On-prem AI Infrastructure + DC facilities
Customer owns the AI hardware, platform infrastructure & the DC running cost
Revenue opportunities:
Complete GPU hardware, AI platform & solutions
Local cloud-based GPU infra & AI platform, tools & solutions (AIaaS)
GPU, AI models & token subscriptions, local data sovereignty with standard & customized AI applications
Revenue opportunities:
Selling complete AI infra solution to service providers & later reselling their services

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	2,901.7	3,413.8	3,987.9	4,637.9
EBITDA	91.0	104.9	127.9	142.6
Deprec. & amort.	(3.4)	(2.3)	(5.3)	(7.6)
EBIT	87.6	107.2	133.2	150.2
Associate contributions	3.9	3.3	3.3	4.3
Net interest income/(expense)	(0.4)	(0.4)	(0.4)	(0.4)
Pre-tax profit	93.1	113.8	141.0	159.2
Tax	(22.6)	(27.6)	(34.2)	(38.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	70.6	86.2	106.8	120.6
Net profit (adj.)	70.3	86.2	106.8	120.6

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	4.1	9.7	12.5	12.9
Other LT assets	56.5	57.0	57.0	58.0
Cash/ST investment	106.4	137.2	142.5	164.6
Other current assets	705.3	764.4	899.3	1,052.6
Total assets	872.2	968.3	1,111.4	1,288.2
ST debt	2.0	2.0	2.0	2.0
Other current liabilities	357.1	393.3	458.0	544.2
LT debt	0.1	0.0	0.0	0.0
Other LT liabilities	1.9	16.1	25.0	35.3
Shareholders' equity	502.4	554.1	623.5	701.9
Minority interest	0.0	0.0	0.0	1.0
Total liabilities & equity	872.2	968.3	1,111.4	1,288.2

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	10.5	72.5	49.9	70.5
Pre-tax profit	93.1	113.8	141.0	159.2
Tax	20.1	(27.6)	(34.2)	(38.6)
Deprec. & amort.	6.3	2.3	5.3	7.6
Working capital changes	(62.2)	(23.0)	(70.3)	(67.1)
Other operating cashflows	(0.4)	9.3	13.4	17.0
Investing	1.6	(8.0)	(8.0)	(8.0)
Capex (growth)	(1.2)	(8.0)	(8.0)	(8.0)
Investments	0.0	0.0	0.0	0.0
Proceeds from Sale of Assets	0.2	0.0	0.0	0.0
Others	2.6	0.0	0.0	0.0
Financing	(56.5)	(33.7)	(36.6)	(40.4)
Dividend payments	(23.5)	(34.5)	(37.4)	(42.2)
Proceeds from borrowings	(0.4)	(0.4)	(0.4)	(0.4)
Loan repayment	(0.2)	0.0	0.0	0.0
Others/interest paid	2.2	0.8	0.8	1.8
Net cash inflow (outflow)	(44.5)	30.8	5.3	22.1
Beginning cash & cash equivalent	150.9	106.4	137.2	142.5
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	106.4	137.2	142.5	164.6

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	3.1	3.1	3.2	3.1
Pre-tax margin	3.2	3.3	3.5	3.4
Net margin	2.4	2.5	2.7	2.6
ROA	8.1	8.9	9.6	9.4
ROE	14.0	15.6	17.1	17.2
Growth				
Turnover	6.4	17.6	16.8	16.3
EBITDA	10.1	15.2	22.0	11.4
Pre-tax profit	12.5	22.1	23.9	13.0
Net profit	4.7	22.1	23.9	13.0
Net profit (adj.)	13.3	22.6	23.9	13.0
EPS	13.3	22.6	23.9	13.0
Leverage				
Debt to total capital	0.1	0.0	0.0	0.0
Debt to equity	0.1	0.1	0.1	0.1
Net debt/(cash) to equity	(21.1)	(24.7)	(22.8)	(23.4)
Interest cover	226.4	277.0	344.2	388.0

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